

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01
L-03 H-01 AGRE-00 /097 W
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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1106

INFO AMEMBASSY BONN

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AMEMBASSY COPENHAGEN

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PASS LABOR' TREASURY AND FRB

E.O. 11652: N/A

TAGS: ELAB, EFIN, PINT, UK

SUBJECT: THE TUC AND THE BUDGET

BEGIN SUMMARY. IN ITS ANNUAL ECONOMIC REVIEW PUBLISHED
FEBRUARY 28. THE TUC HAS PUT FORWARD A BROAD RANGE OF
ECONOMIC AND SOCIAL PROPOSALS OARTLY AIMED AT INFLUENCING
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THE BUDGET WHICH CHANCELLOR OF THE EXCHEQUER DENIS
HEALEY PLANS TO ANNOUNCE ON MARCH 29. THE TUC DEMANDS
THAT MR. HEALEY REFLATE TO THE TUNE OF ABOUT 2 37
BILLION POUNDS WITH A PACKAGE OF TAX CUTS. STIMULANTS TO
INDUSTRIAL EXPANSION, JOB CREATION AND TRAINING SCHEMES,
AND IMPROVED WELFARE PAYMENTS. THE REVIEW DOES NOT SPELL
OUT PAY POLICY TERMS WHICH THE TUC PLANS TO NEGOTIATE

WITH THE GOVERNMENT AFTER THE BUDGET, BUT IT WARNS THAT ANOTHER YEAR OF PAY RESTRAINT MUST BE LINKED WITH "ADEQUATE RESPONSE" TO ITS ECONOMIC DEMANDS. END SUMMARY.

1. OF ITS PACKAGE OF REFLATIONARY PROPOSALS TOTALLING 2.37 BILLION POUNDS. THE TUC WOULD HAVE THE BULK IN THE FORM OF INCOME TAX CUTS IN THE NET AMOUNT OF 1.5 BILLION POUNDS, MOSTLY FOR BENEFIT OF THE LOWER PAID. LT SUGGESTS THREE OPTIONS FOR POSSIBLE CUTS, HOWEVER, ONE OF WHICH WOULD ACTUALLY BENEFIT ALL INCOME TAX PAYERS BY REDUCING THE TAX RATE FROM THE PRESENT 35 PERCENT ON THE FIRST BAND OF TAXABLE INCOME TO 30 PERCENT. IT ALSO ARGUES AGAINST ANY INCREASE IN INDIRECT TAXES.

2. THE REST OF THE PACKAGE INVOLVES STIMULATION TO INDUSTRY (200 MILLION POUNDS TO THE NATIONAL ENTERPRISE BOARD AND PROJECTS UNDER THE INDUSTRY ACT AND 100 MILLION FOR EXPANSION OF CONSTRUCTION INDUSTRY); JOB CREATION AND TRAINING SCHEMES (305 MILLION POUNDS); IMPROVEMENT IN NATIONAL INSURANCE BENEFITS (150 MILLION POUNDS); IMPROVEMENT IN WELFARE PAYMENTS BY EXTENDING EARNINGS SUPPLEMENTS AND REDUCING WAITING TIME FOR LONG-TERM SUPPLEMENTARY BENEFITS (65 MILLION POUNDS); AND A FINAL ITEM OF 50 MILLION POUNDS FOR SCHOOL MEAL SUBSIDIES.

3. THE TUC SAYS THAT THESE MEASURES, TOGETHER WITH OTHER ACTIONS IT CALLS FOR IN THE REVIEW, WILL PRODUCE ABOUT 250,000 MORE JOBS OVER AN EIGHTEEN-MONTH PERIOD
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AND THEREBY HELP TO REDUCE WHAT IT CONSIDERS AN UNBEARABLE UNEMPLOYMENT BURDEN (1.4 MILLION IN JANUARY 1977). IT ACKNOWLEDGES THAT THE COST OF THESE MEASURES WOULD OUTRUN THE PUBLIC SECTOR BORROWING REQUIREMENT (PSBR) LIMIT SET IN THE GOVERNMENT'S LETTER OF INTENT TO THE IMF, BUT IT ATTEMPTS TO CIRCUMVENT THIS DIFFICULTY, AT LEAST IN PART, BY SUGGESTING THAT THE PSBR WILL BE "SUBSTANTIALLY LESS THAN ORIGINALLY THOUGHT" -- ABOUT 1 BILLION POUNDS LESS. GIVEN THE MAGNITUDE OF THE PROPOSED REFLATION, THIS STILL LEAVES A PSBR OVERRUN OF OVER 1 BILLION POUNDS ABOVE THE 8.7 BILLION POUND FIGURE. THIS IS INDEED A HEFTY INCREASE. HERE, THE TUC ARGUES FROM ANOTHER DIRECTION: IN THE IMF LETTER OF INTENT, IT SAYS, THE GOVERNMENT MADE IT CLEAR THAT THE SOCIAL CONTRACT AND INDUSTRIAL STRATEGY "ARE JUST AS IMPORTANT, IF NOT MORE IMPORTANT THAN RIGID ADHERENCE TO MONETARY TARGETS." IN THEIR VIEW, THERE IS, THEREFORE, A HIGHER IMPERATIVE THAN THE IMF LETTER OF INTENT'S STRICTURE ON PSBR LIMITS.

4. THE TUC ALSO GIVES SHORT SHRIFT TO THE GOVERNMENT'S PROJECTION OF A 15 PERCENT INFLATION RATE BY END OF 1977. NOT SO, SAYS THE REVIEW; IF THE VALUE OF THE POUND IS MAINTAINED AROUND ITS PRESENT 1.70 LEVEL, INFLATION COULD DROP TO 10 PERCENT AT THE END OF 1977 AND 5 PERCENT IN MID-1978. AT THE SAME TIME, HOWEVER, THE TUC INSISTS THAT THERE BE NO INCREASE IN INDIRECT

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TAXATION BECAUSE OF THE UNFAVORABLE EFFECT THIS WOULD HAVE ON PRICES. IT URGES THE SCHOOL MEAL SUBSIDY IN-

CREASE IN ORDER TO CURB COSTS; AND, IN BROADER TERMS,
IT ADVOCATES MORE POWER TO THE PRICE COMMISSION TO CURB
PRICES.

5. WHEN THE TUC LEADERSHIP PRESENTED THE REVIEW TO
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CHANCELLOR HEALEY ON FEBRUARY 25, IT REPORTEDLY (FINANCIAL TIMES, FEBRUARY 26) CAME AWAY FROM THAT MEETING "CAUTIOUSLY OPTIMISTIC THAT THE CONTROLLED ECONOMIC EXPANSION IT DEMANDS WOULD BE FORTHCOMING IN THE BUDGET." LEN MURRAY EMERGED WITH A "FEELING THAT HE (MR. HEALEY) WAS NOT UNSYMPATHETIC TO THE IDEA OF SOME STIMULUS TO THE ECONOMY THIS YEAR." THE CHANCELLOR, FOR HIS PART, WAS CLEARLY MORE CAUTIOUS, EMPHASIZING THE DANGERS OF A TOO-SPEEDY RUSH FOR GROWTH AND ALSO POINTED TO THE LIMITS SET WHEN THE UK NEGOTIATED THE RECENT IMF LOAN. (THE TUC MAY HAVE SOME BASIS FOR ITS CAUTIOUS OPTIMISM SINCE THE CHANCELLOR LAST THURSDAY HAD GIVEN STRONG HINTS THAT INCOME TAX CUTS MAY BE PENDING.)

6. HOWEVER, AS IN PREVIOUS YEARS, THE ECONOMIC REVIEW THIS YEAR GENERALLY SETS OUT A "BARQAINING POSTURE" WHICH THE UNIONS CAN EMPLOY IN THEIR OLYMPIAN NEGOTIATIONS WITH THE GOVERNMENT, AND THEY WILL UNDOUBTEDLY OBTAIN LESS THAN THEY WANT. BUT IT IS CLEAR THAT THEY WILL BE EXPECTING A COMBINATION OF RELATION ACTION ALONG THE BROAD LINES THEY HAVE SUGGESTED IN THE REVIEW, TOGETHER WITH A TOUGHER PRICES POLICY, AS PAYMENT FOR A THIRD YEAR OF WAGE RESTRAINT. THE SIZE AND SHAPE OF ROUND THREE ARE IN AN EARLY STAGE OF PREPARATION, BUT THE BUDGET PROPOSALS -- SINCE THEY WILL PRECEDE THE PAY DISCUSSIONS -- WILL HAVE A MAJOR IMPACT ON THE KIND OF PAY RESTRAINT POLICY WHICH EMERGES.

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